

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 ABF-01 FS-01 /082 W

-----001491 010241Z /65

R 311226Z AUG 77

FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC 7600

INFO AMEMBASSY COPENHAGEN

AMEMBASSY PARIS

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

AMEMBASSY LONDON

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USOECD

E.O. 11652: N/A

TAGS: EFIN, IC

SUBJECT: ICELANDIC KRONA DEVALUED

BEGIN UNCLASSIFIED

1. CENTRAL BANK OF ICELAND ANNOUNCED AUGUST 30 THAT
ICELANDIC KRONA WOULD BE QTE ADJUSTED UNQTE DOWNWARD
2.6 PER CENT IN RELATION TO DOLLAR. KRONA RATE SET
DAILY BASED ON BASKET OF WEIGHTED CURRENCIES. SWEDISH,
DANISH, AND NORWEGIAN DEVALUATIONS PLUS CHANGES IN OTHER
COUNTRIES' CURRENCIES THEREFORE MADE ACTION BY ICELANDERS
INEVITABLE.

2. SINCE LAST MAJOR DEVALUATION IN FEBRUARY 1975, CENTRAL
BANK HAS BEEN PEGGING RATE OF KRONA FRACTIONALLY BUT
STEADILY LOWER, SOMETIMES TWO OR THREE TIMES PER WEEK.

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DOLLAR SLIDE IN EUROPEAN MONEY MARKETS HAS SAVED BANK
FROM NEED TO DEPRECIATE CURRENCY EVEN FASTER. IN VIEW
OF MOVES BY OTHER NORDICS, HOWEVER, BANK COULD NOT RESIST
THIS SHARPER DROP. END UNCLASSIFIED.

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3. WE BELIEVE GOVERNORS OF CENTRAL BANK GAVE AUDIBLE

SIGH OF RELIEF THAT DEVALUATION COULD BE DIRECTLY CHARGED TO OUTSIDE FORCES. FOR SOME TIME, RATE HAS BEEN SLOWLY CREEPING TOWARDS RATE OF 200 KRONUR TO US DOLLAR, AND PRESS HAS BEEN WAITING TO ATTACK WHEN THAT PSYCHOLOGICAL LEVEL REACHED. WITH SUDDEN JUMP FROM 199 TO 204 BLAMED ON ACTIONS OUTSIDE GOI CONTROL, WE EXPECT THAT CRITICISM WILL BE MUTED.

4. LABOR AGREEMENT SIGNED IN JUNE HAS PROVISION THAT ANY SIGNIFICANT DEVALUATION OF KNONA WILL BE MATCHED BY COMPENSATING INCREASE IN WAGES. ALTHOUGH THERE WILL BE SOME GRUMBLING, PRESIDENT OF ICELANDIC FEDERATION OF LABOR SAID CHANGE WAS NOT MAJOR THEREBY GIVING SUPPORT TO GOI EFFORTS TO HOLD LINE ON WAGES. SPECULATION ABOUT LARGE DEVALUATION, ALWAYS RIFE IN REYKJAVIK, NOT LIKELY TO BE HALTED AS RESULT OF CENTRAL BANK MOVE, PARTICULARLY IN VIEW OF FORTHCOMING ELECTIONS.

5. THE INFLATIONARY IMPACT OF THE JUNE WAGE SETTLEMENT AS PREDICTED (REYKJAVIK A-31) WAS ALREADY ERODING KRONA VALUE WHICH, AFTER SIX MONTHS OF RELATIVE STABILITY, HAD SLIPPED BY 2.3 PER CENT AGAINST THE DOLLAR IN TWO-MONTH PERIOD IMMEDIATELY PRECEDING AUGUST 30 DEVALUATION. IT IS INTERESTING TO NOTE THAT AS RECENTLY AS DECEMBER 31, 1974, KRONA WAS PEGGED AT 118 TO THE DOLLAR. NEW VALUE OF KRONA FOLLOWING AUGUST 30, 1977, QTE ADJUSTMENT UNQUOTE THERE- LIMITED OFFICIAL USE

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FORE REPRESENTS A CUMULATIVE DECLINE OF VALUE OF KRONA BY 73 PERCENT AGAINST THE DOLLAR IN LESS THAN THREE YEARS. END LIMITED OFFICIAL USE
BLAKE

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NNN

Message Attributes

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Disposition Approved on Date:
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